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SECTORAL REPORT

YUKON DEVELOPMENT STRATEGY

CONSTRUCTION AND HOUSING

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Building the Future

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DISCUSSION PAPER

INTRODUCTION

This paper does not pretend to analyze the Construction and Housing sector in detail. It does, however, incorporate many of the ideas put forward during the recent Yukon 2000 Workshop on Construction and Housing in Yukon. It is hoped, therefore, that further discussion will be generated by it resulting in a better understanding of the construction industry and that the suggestions made will be weighed for merit and implemented where possible.

BACKGROUND

The Construction industry in the Yukon consists of the following three main groups of contractors, according to the type of work they undertake:

1. Companies which undertake mainly industrial/commercial/institutional construction (building contractors);
2. Companies which are largely involved in civil works such as highway construction and municipal services construction (civil contractors);
3. Companies and individuals primarily involved in housing construction and rehabilitation.

The first two groups subdivide into companies which are capable of undertaking large projects in the multi-million dollar range, those which handle medium (approximately three-quarter million) projects and those which bid smaller jobs or work as sub-contractors for others, either because of their limited resources to bid larger projects or because of their specialization as trade contractors. Most of the trade contractors work in all segments of construction where their skills are required.

Companies presently engaged in housing construction are generally small builders, producing several houses annually or only a single house annually. The Yukon has no developer builders of a kind common elsewhere in the country.

Historically the Construction industry has experienced severe fluctuations in activity. During the recent economic recession only projects such as the Fourth Wheel, the Whitehorse Air Terminal and several highway construction projects kept the level of activity at a level above minimal and provided badly needed employment. More recently the Andrew Philipsen Building and the new Yukon College have brought the level of activity in the commercial area to a high level. Major private projects in Whitehorse have contributed significantly to the level of construction activity in Yukon as well. Highway construction in the territory has also been on an upswing this year. The net result has been that all contractors in the Yukon have been working at or near capacity. As well, contractors from B.C. and Alberta have been successful in bidding several building and highway projects.

New construction in the housing field has lagged behind previous years, but at present the demand for housing has reasserted itself and opportunities seem to exist for expansion in this area. Further, recent recognition by homeowners of the benefits to be gained by making older houses energy efficient through retrofits has created a substantial demand for small contractors who specialize in this area. Past and present government programs of grants and low interest or interest-free loans coupled with the availability of free advice and free energy audits, has further stimulated the housing retrofits sector.

Also historically, the construction industry has been one of the industries responsible for attracting workers from outside the Yukon. During the days when the Alaska highway was being built, nearly 100% of the workforce came from elsewhere. Many stayed behind to make Yukon their permanent place of residence. On a smaller scale, this is still true. People migrate here seeking jobs during periods of high construction activity in the Yukon and a number of these stay on each year. There are also those who return several construction seasons in a row when times are relatively good but never make their permanent home here.

A number of medium to large construction companies, with head offices located elsewhere in the country, also follow a similar pattern by bidding and working on jobs on a more or less regular basis in the Yukon.

CONTRIBUTION TO YUKON'S ECONOMY

The Construction industry is responsible for approximately one-third (approximately $14 million in 1984) of wages paid by all goods producing establishments in the Yukon. In terms of value of output, the contribution made by the Construction industry is even more significant, about 60% of the total output, or nearly $135 million in 1984.

In addition to providing direct employment, the construction of a building or a highway also creates permanent employment. For example, in the case of commercial/industrial/institutional buildings the annual, continuing O&M expenditure is in the range of 5% of the capital cost of the facility, or approximately $50,000 for every one million invested

CONSTRAINTS TO GROWTH

General

All sectors of the construction industry in the Yukon, except the housing construction sector, are at present approaching the point of capacity saturation. This capacity is not necessarily limited by the number of entrepreneurs willing to enter the field of contracting or by the number of entrepreneurs willing to expand their operations.

The requirement for bonding or any other kind of contract security may be a significant roadblock for some contractors. A new contractor will invariably experience difficulties in obtaining bonding or backing by a bank, limiting the firm's ability to submit tenders. A contractor desiring to expand operations may experience similar difficulties, particularly if the expansion is rapid.

Large contracts prevent many smaller contractors from bidding. Their ability to bid certain jobs may be limited by the level of bonding required, their administrative capability and level of experience. Some companies have overcome this constraint by forming joint ventures with others for the duration of a project but the practice, while becoming more common, is still its early stages in the Yukon.

Another limitation to a contractor's ability to undertake new projects may simply be the unavailability of qualified tradesmen during a period of high construction activity. This is particularly true in the building construction area.

The short construction season in the Yukon places severe restrictions on all contractors. All fixed costs have to be covered and all profits made over a short season that may consist of very few projects for the smaller firms. This situation can be aggravated if the first contracts in the spring are tendered late, further reducing the period available to recover costs and make a profit. Similarly, if most small contracts are let during a short time span early in the construction season, small contractors will experience a work shortfall during the later part of the season.

Building Construction

The value of Yukon Government building contracts to date (September, 1986) in the fiscal year (1986/87) is approximately $24,000,000, with another several million to be tendered under the same fiscal year's budget. It is

difficult to determine the value of commercial capital investment for the same period, but an estimate of $10,000,000.00 has been suggested. The value of Federal capital building construction during the same period has been suggested as approximately $1,000,000.00. The federal sector's contribution to capital building construction can be expected to increase substantially in the near future if the Whitehorse General Hospital and a new Federal building proceed as planned. It appears that the Yukon may be entering an unprecedented period of high construction activity which will almost certainly result in a number of outside companies bidding and working on Yukon projects. Some of these will bring at least a part of their workforce with them, in most cases only because the local, experienced labour force will be almost fully employed.

A number of Yukon contractors have undergone significant growth in their operations over the past year or more. Some who were previously trade contractors only are now undertaking substantial general contracts and some tradesmen are entering the contracting community as trade contractors. Other contractors who up until recently have bid on small or medium sized projects only are now in a position to handle substantially larger projects or a larger number of small or medium ones.

All contractors depend on the labour market and this market is now approaching the point where, in some trades, very few qualified people are still available locally. As a result, more and more construction personnel are migrating to the Yukon from areas where construction activity is depressed. Many of these workers return home in late fall or early winter.

A contributing factor to the qualified labour shortage is the small number of people enrolled in apprenticeship programs (the number of people who intend to make a career in construction). There is some apprehension that the good years, such as this one and a few still to come, may be only a flash in the pan and that it may not be worth one's while to commit a number of years to a training program only to discover later that the construction boom is finished and the market is flooded by too many tradesmen.

Unions have historically been a driving and supportive force behind apprenticeship programs. With the percentage of unionized companies shrinking, the trend in building trades has been to hire helpers instead of apprentices. The helper does not necessarily make a commitment to learn a trade and may or may not at some time in the future obtain trade certification.

Bonding requirements are sometimes a constraint on contractors wishing to expand their operations. The recent rapid growth of the local contracting community has resulted in a number of contractors who are unknown to bonding companies in terms of previous experience, and these contractors are experiencing various degrees of difficulty in obtaining contract securities.

Civil Construction

The value of 1986/87 civil construction (highways and municipal) administered by the Yukon Government will be approximately $25,000,000, including Federal contributions. This volume approaches the level of

activity which can be handled by existing Yukon construction firms working in this field. These consist of some four or five firms able to handle multi-million dollar contracts, another six or seven who can handle work in the three-quarter million dollar range and a larger number of small, but growing, contractors. More are entering the field.

Even now, however, a number of non-Yukon firms bid on Yukon highway projects with considerable success and even though a policy preferring Yukon contractors is in place on all Yukon-funded projects.

There appear to be few constraints to the growth of contractors in the civil construction area, except perhaps the requirement for bonding. Similarly to building construction, new companies and companies expanding rapidly are experiencing some difficulty in providing sufficient acceptable proof of experience and financial stability to bonding companies.

The amount of capital spent on highway construction by the Yukon Government can be expected to remain constant over the next five years or so, with the secondary highway construction program gaining momentum and significance. The amount spent by the Federal Government, however, would increase substantially if the Shakwak Project gains momentum again.

Should this project get seriously underway again, then a number of outside companies can be expected to operate in the Yukon, since it appears that the Yukon highway construction contractors will not be able to handle volumes much over $25,000,000.00 for the next several years. Also, Yukon contractors do not enjoy a preferential status on any federally funded project.

Housing Construction

Construction activity in the housing area at this time consists of new construction by small entrepreneurs, Indian Bands and future occupants of the house and of rehabilitation and retrofit work on older properties. A significant number of tradespersons are involved in the retrofit market, undertaking projects from several hundred dollars to several thousand dollars in value. These retrofit projects consist mainly of reinsulation, weather-proofing, heating system upgrading, installation of new doors and windows and new siding. It is difficult to estimate the total value of the work on these projects.

The present housing stock in the territory, both privately and government owned, appears to be generally insufficient for the present population, with the current vacancy rate in Whitehorse near 1%. This has contributed to recent rent increases for house-renters and apartment dwellers and these increases have been further fuelled by the fear in some investor circles that rent controls may be imminent in the Yukon.

Recent new housing construction has not kept pace with demand, particularly because of the high cost of construction, roughly at $75 - $80 per square foot in Whitehorse. This means that a 1,200 square foot bare bones house with a living floor and crawlspace or unfinished basement will sell for about $90,000.00.

The high cost of new housing places severe restrictions on young families with moderate incomes. The mortgage payments together with taxes and utilities can be in a range where commercial lending institutions refuse financing. The cost of buying an older unit and upgrading it may be similarly out of reach. The cost of upgrading can be significant and many cheaper properties in the territory are often in a bad state of disrepair and require a substantial input of money, time or both.

Upgrading, of course, presents another problem in the form of an increase in assessment and therefore higher property taxes. Unfortunately, municipalities want to see properties upgraded but are unwilling to give the upgrader any sort of financial incentive.

It is generally recognized that a housing strategy agreed to and promoted by the various levels of government can be a stabilizing force to the general population. Good housing and good municipal services are a prerequisite to a stable population, however at this time there appears to be insufficient belief in the future of the Yukon economy to make them opt for new housing or for upgrading of older stock. A transient population is still a major problem in the Yukon.

It is also generally recognized that new housing construction and rehabilitation of older stock can contribute significantly to an economy, particularly if this is an ongoing process that can be expected to continue at some predictable level for some time. At present such a prediction is difficult to make and there appear to be insufficient indicators for the

builder to invest and for the owner to spend more money on his property. As a result, the spin-off areas such as forestry, suppliers, and small local manufacturers, are not benefitting and cannot incorporate residential construction needs in their planning.

SUMMARY OF CONSTRAINTS AND OPTIONS FOR REDUCTION

The constraints are summarized below under separate headings with some suggested options for their reduction.

Requirements for Contract Securities

Even though the requirements for putting up contract securities may be onerous for some contractors, the owner must at all times have assurance from the contractor regarding his ability to complete the work, pay for labour employed and pay for materials purchased. There must also be assurance that the contractor's services will be available during any warranty period specified.

To assist contractors to obtain bonds or bank guarantees, tenders should be scheduled so that large contracts are spaced over a period of time or, if possible, broken down into several smaller packages.

Shortage of Qualified Tradespersons

Active promotion of the benefits to be gained by learning a trade would be one option. Active promotion of the apprenticeship programs available by Government and support of these programs by contractors could alleviate the situation. Provision of adequate quantity and quality of housing to the labour force may reduce the transient nature of the construction labour force.

Well coordinated public awareness efforts should be undertaken and directed at providing apprenticeship program information to the general public and to contractors. Many smaller contractors are not aware of the program's benefits to them and how the program functions.

Short Construction Season

This is aggravated by greatly fluctuating budgets available for capital construction.

Attempts must be made to tender construction projects early in the year so that work can start as soon as the weather is suitable. At the same time tenders must be staggered to give smaller bidders the opportunity to bid again, should they have been unsuccessful in earlier attempts or have completed an earlier project. Some building construction projects must be scheduled so that the building is closed in for winter while inside work continues during the winter. Winter works programs proposed by governments must take into account the time periods required for planning

projects and therefore should be planned at least one year in advance. Governments should also consider tendering projects during the winter for a spring start. Governments should also give consideration to publishing advance listings of probable future projects.

Transient Population

Generally, much of the population is transient and rarely makes lifetime commitments to any single community. A large proportion of the Yukon's population has roots in the south. Many return to those roots.

Improved services and educational opportunities for all Yukon residents will tend, over the long term, to make more newcomers to the Yukon become permanent residents. It will be necessary for the Government to continue providing these kinds of services in most communities. Quality housing construction and availability of good housing will be a strong encouraging factor when people are ready to make a commitment to stay.

Cost of Housing

The high cost of housing, including the cost of facilities, keeps a significant percentage of the population out of the housing market. A review of the access to mortgage funding in all communities might indicate that a program of second mortgages at beneficial interest rates supported

by the Government would assist many Yukoners to buy their own house. Access to mortgage funding in our smaller communities can be particularly difficult.

A public educational and awareness program centered on all aspects of home ownership should be instituted. Familiarity with the costs and benefits of home ownership may stimulate demand as well as keep some potential buyers out of difficult financial situations.

Property Taxes

An incentive program for those who wish to upgrade their properties would increase activity. The present approach is to increase property taxes in direct proportion to improvements made. The opposite approach should be taken: properties being improved should receive some kind of tax incentive or perhaps a grant in lieu of taxes.

Size of Housing Market

At this time no firm data are available to allow potential commercial builders to determine the potential number of buyers of new or retrofitted housing. Consequently, builders are very conservative in undertaking new construction as a speculative venture. Most of these builders are individuals or small companies who cannot afford to commence significant new starts until the completed product is sold.

A market survey to determine current and projected housing needs in all Yukon communities should be undertaken immediately.

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